

Message Text

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TAGS: EFIN, SW

SUBJECT: SWEDISH GOVERNMENT PRESENTS BILL EASING NATIONAL INCOME
TAX BURDEN ON INDIVIDUALS

REF: A. STOCKHOLM 2008

1. IN LINE WITH THE FRAMEWORK AGREEMENT REACHED BETWEEN THE
SOCIAL DEMOCRATIC AND LIBERAL PARTIES AT "HAGA MEETING" EARLIER
IN YEAR (SEE REFTEL), SWEDEN'S FINANCE MINISTER STRANG PRESENTED
A PROPOSED GOVERNMENT BILL AT PRESS CONFERENCE OCTOBER 10 CON-
TAINING PROPOSALS TO LOWER NATIONAL INCOME TAX LEVELS FOR IN-
DIVIDUALS IN LOW-AND MIDDLE INCOME BRACKETS. THE ADJUSTMENTS,
TO ENTER INTO EFFECT JANUARY 1, 1975, WILL COST ABOUT \$1.1
BILLION AND BE FINANCED BY CORRESPONDING INCREASES IN PAYROLL
TAXES IMPOSED ON EMPLOYERS.

2. BASIC CHANGES INVOLVE: A) ABOLITION OF INDIVIDUAL'S
HEALTH INSURANCE CONTRIBUTION (WHICH RANGES FROM SKR 130
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TO SKR 830 OR \$30 TO \$184 ANNUALLY); B) ALLOWANCE OF

GENERAL DEDUCTION OF SKR 4,500 OR ABOUT \$1,10 FOR ALL INDIVIDUALS; C) ADJUSTMENT OF TAX SCALES TO EASE BURDEN IN LOW-AND MIDDLE-INCOME GROUPS; D) VARIOUS MINOR CHANGES TO ASSIST PENSIONERS; E) INCREASE OF HEALTH INSURANCE ITEM IN APYROLL TAX FROM 3.8 TO 7.0 PERCENT.

3. EFFECT OF PROPOSED MEASURES WILL REDUCE AMOUNTS PAID BY MOST INDIVIDUALS IN NATIONAL REPEAT NATIONAL INCOME TAX BY SOME SKR 1,000 - 2,000 (\$230 - 460) ANNUALLY. HOWEVER, PROJECTED INCREASES IN LOCAL TAXATION IN 1975 WILL ALMOST COMPLETELY NEUTRALIZE RELIEF. LOCAL TAXES, WHICH ARE LEVIED ACCORDING TO A FLAT RATE SET EVERY YEAR BY EACH MUNICIPALITY, WERE FROZEN IN 1973 AND 1974 BY AGREEMENT BETWEEN CENTRAL AND LOCAL GOVERNMENT AUTHORITIES. NO SUCH AGREEMENT EXISTS FOR 1975.

4. FINANCE MINISTER STRANG ALSO ANNOUNCED AT PRESS CONFERENCE SUPPLEMENTARY DIRECTIVES TO TAX INVESTIGATING COMMITTEE WHICH, IT IS HOPED, WILL REDUCE AVERAGE NATIONAL INCOME TAX BY ANOTHER SKR 1,000 A YEAR PER INDIVIDUAL IN 1976. EMPLOYERS WILL BE ASKED TO PAY FOR THIS REFORM ALSO. MR. STRANG SAID THE GOVERNMENT WOULD SHORTLY BE INITIATING TALKS WITH LOCAL AUTHORITIES IN AN EFFORT TO FREEZE LOCAL TAX RATES IN 1976 AND 1977 TO AVOID DILEMMA OF LOSING ON LOCAL SWINGS WHAT IS GAINED ON NATIONAL ROUNDABOUTS.

5. COMMENTS. PROPOSALS ELICITED LITTLE EDITORIAL COMMENT. MAIN CRITICISM DIRECTED TOWARD FACT THAT REDUCTION IN NATIONAL TAXES WOULD PROBABLY BE OFFSET ENTIRELY BY INCREASES IN LOCAL TAXES. SOCIAL DEMOCRATIC TABLOID AFTONBLADET STRESSED THAT FURTHER REDUCTION OF A NATIONAL TAXES IN 1976 MUST BENEFIT LOW-INCOME GROUPS VIS-A-VIS HIGH-INCOME GROUPS TO A GREATER EXTENT THAN THE BILL NOW BEFORE PARLIAMENT. IF LOCAL TAXES DO RISE TO SAME EXTENT AS, IF NOT MORE THAN, DECLINE IN NATIONAL TAXES IN 1975, THE NET ECONOMIC EFFECT WOULD BE NIL ON DEMAND SIDE. NOTWITHSTANDING THE OVERALL EFFECT, GOS WILL UNDOUBTEDLY USE PROPOSED AND PLANNED NATIONAL TAX REDUCTIONS AS AMMUNITION IN THE NATIONAL ELECTIONS SCHEDULED FOR SEPTEMBER 1976. LABOR, ALTHOUGH WELCOMING NATIONAL TAX REDUCTION, MAY NOT MODERATE DEMAND FOR SUBSTANTIAL WAGE INCREASES DURING FORTHCOMING

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NEGOTIATIONS IN VIEW OF 9.5 PERCENT CONSUMER PRICE INCREASE DURING FIRST THREE-QUARTERS OF YEAR AND PRESS REPORTS OF CONTINUING HIGH PROFIT MARGINS ENJOYED BY INDUSTRIAL ENTERPRISES. STRAUSZ-HUPE

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